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June 4, 1997

Federal Communications Commission
Office of Secretary

Mr. William F. Caton Acting Secretary Federal Communications Commission 1919 M Street, NW, Room 222 Washington, DC 20554

Dear Mr. Caton:

Re: RM-9085, File Number CCB/CPD 97-19, Policies and Rules Pertaining to Local Exchange Carrier "Freezes" on Consumer Choices of Primary Local Exchange or Interexchange Carriers

On behalf of Southwestern Bell Telephone Company, Pacific Bell, and Nevada Bell, please find enclosed an original and six copies of their "Comments" in the above proceeding.

Please stamp and return the provided copy to confirm your receipt. Please contact me at (202) 383-6429 should you have any questions or require additional information concerning this matter.

Sincerely,

Enclosure

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Before the FEDERAL COMMUNICATIONS COMMISSION Washington, D.C. 20554

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In the Matter of)	
Policies and Rules Pertaining to Local Exchange Carrier)	RM-9085 File No. CCB/CPD 97-19
"Freezes" on Consumer Choices of)	1 NO NO. OOD/OF D 07 10
Primary Local Exchange or)	
Interexchange Carriers)	
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COMMENTS BY SOUTHWESTERN BELL TELEPHONE COMPANY, PACIFIC BELL, AND NEVADA BELL IN OPPOSITION TO MCI'S PETITION FOR RULEMAKING

Robert M. Lynch Durward D. Dupre Mary W. Marks Marjorie Morris Weisman

> One Bell Center St. Louis, MO 63101 (314) 235-2507

Marlin D. Ard Randall E. Cape Jeffrey B. Thomas

> 140 New Montgomery Street, Room 1529 San Francisco, California 94105 (415) 542-7661

Attorneys for Southwestern Bell Telephone Company, Pacific Bell, And Nevada Bell

Date: June 4, 1997

TABLE OF CONTENTS

				<u>Page</u>	
I.	SUMI	MARY	AND INTRODUCTION	2	
11.	RULE	EMAKII	IISSION SHOULD INSTITUTE A BROAD § 258 NG ON SLAMMING, NOT THE NARROW RULEMAKING OTECTION THAT MCI PROPOSES	3	
III.	PACI	FIC BE	RTS THE ROLE OF PIC PROTECTION SWBT, ELL, AND NEVADA BELL USE PIC PROTECTION S A CONSUMER SAFEGUARD	6	
	A.	Our F	PIC Protection Benefits Consumers	. 6	
		1.	SWBT's Procedures For PIC Protection Benefit Consumers	. 7	
		2.	Pacific Bell's Procedures For PIC Protection Benefit Consumers	. 8	
		3.	Procedures For Public Payphones Benefit Consumers	. 9	
	B.		PIC Protection Is A Reasonable Response To Slamming s Consistent With The Commission's Goals	9	
IV.	MCI'S PROPOSED PIC PROTECTION RULES SHOULD BE REJECTED				
	A.	Rules	For PIC Protection Are Not Needed	12	
	B.		Commission Should Allow Carriers To Employ Any conable Method Of PIC Protection	13	
	C.	Must I Attem	Protection Is Addressed In A § 258 Rulemaking, The Rules Be Applied To All Carriers, Including Those IXCs That Are pting To Abuse The PIC Protection Process To Protect et Share	13	

	Đ.	MCI's Proposed Rules Contain Serious Flaws That Would Harm Consumers	14
V.	CON	CLUSION	17

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COMMENTS BY SOUTHWESTERN BELL TELEPHONE COMPANY, PACIFIC BELL, AND NEVADA BELL IN OPPOSITION TO MCI'S PETITION FOR RULEMAKING

Southwestern Bell Telephone Company ("SWBT"), Pacific Bell, and Nevada Bell submit these comments in opposition to MCI's Petition for Rulemaking ("Petition") in this proceeding. MCI's Petition requests that the Commission institute a rulemaking to regulate the solicitation of primary interexchange carrier ("PIC") "freezes" or other carrier protections affecting the changing of a consumer's primary interexchange carrier ("IXC") and local exchange carrier.¹

¹ SWBT, Pacific Bell, Nevada Bell, and other local exchange carriers ("LECs") have developed PIC protection as a consumer safeguard. When a customer requests PIC protection, a LEC will not change the customer's PIC without direct authorization from the customer and, thus, IXCs may not act as agents for the customer in submitting orders for PIC changes.

I. SUMMARY AND INTRODUCTION

MCI's Petition has two inter-related flaws that require its denial. First, the Petition addresses LEC PIC protection in a vacuum. It does not address the problem that caused the need for LECs to offer PIC protection as a consumer safeguard — the submission by some IXCs of unauthorized changes in subscribers' selections of PICs, a practice known as "slamming." In order to have a meaningful rulemaking, the whole issue of slamming, not just one of its effects, must be reviewed, consistent with the requirements of § 258 of the Telecommunications Act of 1996 ("the Act").

Second, MCI's Petition substantially distorts the one issue that it does address, destroying whatever value the Petition might have had for helping to frame one of the issues for a broader rulemaking. MCI makes general assertions against LECs that are untrue. MCI states that LECs make false claims that they offer PIC freezes as protection against slamming while in reality "employ[ing] PIC freezes as a strategic tool to lock in their own customers and to impede effective competition...." Actually, SWBT, Pacific Bell, and Nevada Bell do not market or charge for PIC protection; we provide it only in the interest of protecting customers from deceptive practices that harm their telephone service, and only when a customer indicates the need for protection from slamming. We gain no competitive advantage from the use of PIC protection.

² MCI Petition at 1.

³ SWBT also occasionally has received calls from the Commission's Enforcement Division requesting that SWBT send PIC protection forms to specific customers because those customers have been slammed.

MCI's recommended rules would destroy the consumers' abilities to protect themselves via PIC protection by placing PIC protection under the control of the IXCs, including the same parties that have caused the need for protection because of their deceptive marketing practices. Under MCI's proposal, IXCs could use third party verification to prevent consumers from having any protection beyond existing rules for PIC changes. IXCs would be able to turn PIC protection into a marketing tool to protect their own market share, while destroying the value of PIC protection as a consumer safeguard.

The number of customers requesting PIC protection has increased significantly over the last few years, although only a small percentage of our customers have requested and obtained PIC protection. The increasing number of customers that want this protection is direct evidence that slamming is a significant problem, and the Commission should initiate a broad rulemaking to address it.

II. THE COMMISSION SHOULD INSTITUTE A BROAD § 258 RULEMAKING ON SLAMMING, NOT THE NARROW RULEMAKING ON PIC PROTECTION THAT MCI PROPOSES

In its Petition, MCI "requests that the Commission institute a rulemaking to regulate the solicitation, by any carrier or its agent, of primary interexchange carrier (PIC) 'freezes' or other carrier restrictions on the switching of a consumer's primary interexchange (interLATA and intraLATA toll) and local exchange carrier." The Commission should reject MCI's Petition because it proposes too narrow a rulemaking

⁴ MCI Petition at 1.

that would ignore the root-cause of problems necessitating PIC protection. PIC protection has been necessitated by some IXCs' practice of submitting unauthorized changes in subscribers' PIC selections. This "slamming" of customers has created the need for PIC protection, and this protection cannot properly be addressed without examining it in the broad context of the problem of slamming.

Slamming has been a significant problem since equal access⁶ and presubscription⁷ became available and IXCs began competing for end user customers in the early 1980s. Slamming has led to numerous complaints and a great deal of customer confusion and frustration.⁸ The Commission has attempted to curb slamming through various means. For instance, the Commission has prescribed verification procedures for IXCs that submit PIC-change orders on behalf of end users,⁹ issued

⁵ "Slamming' means the unauthorized conversion of a customer's interexchange carrier by another interexchange carrier, an interexchange resale carrier, or a subcontracted telemarketer." *Policies and rules Concerning Unauthorized Changes of Consumers' Long Distance Carriers*, CC Docket No. 94-129, *Report and Order*, released June 14, 1995, n. 1, ("Letter of Authorization or LOA Order") citing *Cherry Communications, Inc., Consent Decree*, 9 FCC Rcd 2086, 2087 (1994).

⁶ "Equal access for IXCs is that which is equal in type, quality, and price to the access to local exchange facilities provided to AT&T and its affiliates." *LOA Order*, n. 6, citing *United States v. American Tel.* & *Tel.*, 552 F. Supp. 131, 227 (D.D.C. 1982), *aff'd sub nom. Maryland V. United States*, 460 U.S. 1001 (1983). "Equal Access allows end users to access facilities of a designated [IXC] by dialing '1' only." *Investigation of Access and Divestiture Related Tariffs*, 101 FCC 2d 911, 928 (1985) ("Allocation Order").

⁷ "Presubscription is the process that enables each customer to select one primary IXC, from among several available carriers, for the customer's phone line(s). A customer accesses the primary IXC's services by dialing '1' only." *LOA Order*, n. 5, *citing Allocation Order* at 928.

⁸ S*ee, e.g.,* LOA Order, paras. 1, 5-7.

⁹ Policies and Rules Concerning changing Long Distance Carriers, CC Docket No. 91-64, Report and Order, 7 FCC Rcd 1038 (1992) ("PIC Verification Order"), recondenied, 8 FCC Rcd 3215 (1993).

requirements for the content and form of the PIC-change letter of authorization ("LOA") that an IXC obtains from an end user, ¹⁰ issued Notices of Apparent Liability, and fined IXCs in certain instances for slamming.¹¹ Nevertheless, slamming has continued to be a significant problem.¹²

Congress addressed the slamming problem in § 258 of the Telecommunications

Act of 1996. Section 258(a) requires Commission-prescribed verification procedures
governing both the submission and execution by carriers of changes in subscribers'
selections of providers of telephone exchange service or telephone toll service. Section
258(b) creates additional remedies for violations of the verification procedures. The
Conference Report on the Act points out that the section "requires the Commission to
adopt rules to prevent illegal changes in subscriber selection, a practice known as
'slamming.'"¹³ Last year the Commission stated that it "will initiate a rulemaking
proceeding to implement the requirements of Section 258."¹⁴

The PIC protection issue that MCI addresses is only one of many issues that are related to § 258 requirements concerning slamming. Moreover, the need for PIC protection has resulted from the consumer need for protection against slamming.

¹⁴ *RCI Order*, para. 21 and n. 39 (1996).

¹⁰ LOA Order.

¹¹ The Commission's announcement of the release of the second edition of the Common Carrier Scorecard stated that slamming generated 34% of consumer complaints in 1995. "Common Carrier Scorecard Report Goes On-Line," December 10, 1996. See Common Carrier Scorecard, Fall 1996, at 14.

¹² See, e.g., RCI Long Distance, Inc., Complainant, v. New York Telephone Company et al., DA 96-1106, Memorandum Opinion and Order, 11 FCC Rcd. 8090, paras. 19, 32, 39 (1996) ("RCI Order").

¹³ H.R. Conf. Rep.No. 104-458, 104th Cong., 2nd Sess. 136 (1996), regarding House Amendment which was adopted by the conferees.

SWBT, Pacific Bell, and Nevada Bell provide this protection solely where the subscriber expresses a desire for protection, normally after the subscriber has already been slammed. In the § 258 rulemaking, the Commission should strive to remove the economic incentive for slamming by adopting rules to enforce § 258(b) and by formalizing severe fines and penalties for slamming. This type of strict enforcement has been successful in California¹⁵ and could help eliminate slamming nationwide. In that event, PIC protection would not be needed, and MCI's Petition would be moot.

III. MCI DISTORTS THE ROLE OF PIC PROTECTION -- SWBT, PACIFIC BELL, AND NEVADA BELL USE PIC PROTECTION SOLELY AS A CONSUMER SAFEGUARD

A. Our PIC Protection Benefits Consumers

In its Petition, MCI makes a number of false and misleading allegations. MCI attempts to characterize PIC protection as an anticompetitive practice that LECs designed to inhibit customer choice. Actually, when LECs designed PIC protection they were not eligible to compete as the PIC, and therefore could have no anticompetitive purpose in offering this service to their customers. PIC protection

¹⁵ See Investigation on the Commission's Own Motion into the Operations, Practices, and Conduct of Cherry Payment Systems, Inc....to Determine Whether They have Complied with the Laws...Governing the Manner in Which California Consumers are Switched from One Long-Distance Carrier to Another...., California PUC Decision 96-09-041, September 4, 1996; Investigation...into the operations of Heartline Communications, Inc...and whether it switched any customers to its service without their permission, California PUC Decision 96-12-031, December 9, 1996.

¹⁶ MCI Petition at 1.

¹⁷ Bell Operating Companies ("BOCs") still are not eligible to compete as the PIC and will not be eligible until Section 271 relief is obtained.

came into existence as a customer protection device, <u>requested by customers</u>, resulting from the unethical slamming practices of some IXCs. MCI also incorrectly suggests that customers do not know that their accounts are PIC protected, or understand the significance of the protection. Since SWBT, Pacific Bell, and Nevada Bell offer PIC protection only when the customer indicates the need for protection from slamming, this allegation is clearly untrue. We have not received consumer complaints concerning this safeguard. The needs of consumers are being addressed; consumers are taking control away from the slammers.

The following brief descriptions of our PIC-protection procedures show that we use PIC protection solely as a consumer safeguard that meets consumers' expressed needs.

1. <u>SWBT's Procedures For PIC Protection Benefit Consumers</u>

SWBT provides PIC protection only when specifically requested by a customer. If a customer requests PIC protection, SWBT sends the customer a letter confirming the PIC protection request and asks the customer to sign and return the letter. Upon return of the letter, SWBT makes a notation that the PIC cannot be changed without direct customer authorization. If the customer wants to change the PIC, SWBT sends the customer a letter confirming the PIC change request and asks the customer to sign and return the letter. Upon return of the letter, SWBT will process the PIC-change request. SWBT uses its own letter to assure that the customer is actually requesting the change.

¹⁸ MCI Petition at 4.

because there have been problems with carriers submitting written requests for PIC changes on forms other than the SWBT letter without the end user customer's knowledge or consent. Once PIC protection is in place, IXC-initiated orders for PIC changes submitted through SWBT's automated system are rejected. SWBT notifies, on a daily basis, the IXCs that have submitted rejected orders.

2. Pacific Bell's And Nevada Bell's Procedures For PIC Protection Benefit Consumers

Like SWBT, Pacific Bell and Nevada Bell do not market, advertise, or actively solicit PIC protection. They offer PIC protection only when a customer indicates the need for protection from slamming, normally after having been slammed. They make a note in their systems that an account has a PIC protection and cannot be changed without direct customer authorization. If the customer wants to change the PIC, they require the customer to contact a Pacific Bell or Nevada Bell representative and verbally authorize the change. The Pacific Bell and Nevada Bell representatives require customers to identify themselves by providing information such as a social security number, driver's license number, or other personal information which is noted in the credit history of the end user's account. Once PIC protection is in place, IXC-initiated orders for PIC changes submitted through Pacific Bell's or Nevada Bell's automated system are rejected. Pacific Bell and Nevada Bell notify, on a daily basis, the IXCs that have submitted rejected orders. Pacific Bell and Nevada Bell apply PIC protection to only interLATA service. The California PUC has ordered that "no local"

exchange carrier shall solicit PIC freezes during the introduction of intraLATA presubscription."19

3. Procedures For Public Payphones Benefit Consumers

SWBT, Pacific Bell, and Nevada Bell experienced significant slamming problems in the payphone arena. Accordingly, we manually process PIC change requests and require that any PIC change request be directly verified. PIC change requests from carriers are not accepted, but may be submitted via three-way calls.

B. Our PIC Protection Is A Reasonable Response To Slamming And Is **Consistent With The Commission's Goals**

MCI incorrectly asserts that LEC PIC protection practices "constitute a violation of Section 201(b) of the Communications Act of 1934, as amended, which requires that all carrier practices be 'just and reasonable.'" MCI argues that LEC PIC protections violate this requirement because they "impede the ability of consumers to move easily from their affiliated companies to other carriers" and create consumer confusion. 20 The Commission already has specifically addressed and soundly rejected arguments similar to MCI's argument. In the RCI Order, the Commission considered RCI's allegations that certain LECs' PIC-change verification procedures (i.e., use of manual processes

¹⁹ Alternative Regulatory Frameworks for Local Exchange Carriers And Related Matters (IntraLATA Presubscription Phase), Calif. PUC Decision 97-04-083, April 23, 1997, p. 21.

²⁰ MCI Petition at 8.

and customer verification of each change) violated § 201(b). The Commission disagreed:

"Slamming is a pervasive consumer problem that threatens to undermine the Commission's goal of fostering competition in telecommunications markets while protecting consumers from unfair or abusive practices by carriers. Apart from its obvious impact on consumers, slamming imposes a substantial burden on carriers, as well as the Commission, to process and resolve consumer complaints to ensure that consumers obtain the services of their carriers of choice. We are not persuaded by RCI that the PIC-change processes at issue here constitute more than reasonable responses by the defendants to the pervasive slamming problem. For all these reasons, we do not find that the defendants' processing procedures are unjust and unreasonable within the contemplation of section 201(b)."²¹

Similarly, the PIC protections offered by SWBT, Pacific Bell, and Nevada Bell are reasonable responses to the pervasive slamming problem and clearly do not violate § Section 201(b).

In the 1995 LOA Order, the Commission "encourage[d] entities such as LECs to take additional steps that might help reduce slamming in their service areas." As an example, the Commission cited favorably Pacific Bell's PIC protection option and quoted the California Public Utilities Commission as stating: "[Pacific Bell] usually mention[s] this option to customers once they have been slammed. One idea is to have

²¹ RCI Order, para. 32.

²² LOA Order, n. 58.

LECs provide customers with this option before they have been slammed."²³ Moreover, in the Common Carrier Scorecard, the Common Carrier Bureau advised consumers:

"If you have been slammed or simply want to make sure that your service is not changed without your knowledge or consent, contact your local telephone company today and request that it obtain your permission before changing your long distance company."²⁴

Thus, LEC provision of PIC protection is consistent with the Commission's goals, and the ways in which SWBT, Pacific Bell, and Nevada Bell provide it are, in fact, very conservative. Moreover, we do not gain from offering PIC protection; we receive no competitive benefit, and we do not charge for the protection. In fact, the companies incur administrative costs to implement PIC protection and absorb these costs as a cost of doing business. The consistency of LEC PIC protection with the Commission's requirements and goals is clearly demonstrated in the *RCI Order* in which the Commission stated:

"[LECs] have a general obligation to protect their customers from fraud and other deceptive or misleading practices that could adversely affect their telephone service. Indeed, as the carriers responsible for activating or terminating or, in this case, switching their customers' services, LECs...may often provide the best line of defense against practices inimical to their customers' interests."²⁵

²³ *Id.* At the request of the Nevada Office of Advocates for Consumers, Nevada Bell offered its PIC protection option as a compliance item in Docket 96-3002, *Nevada Bell's Application To Enter The Plan For Alternative Regulation*.

²⁴ Common Carrier Scorecard, Fall 1996, at 7.

²⁵ RCI Order, para. 16 (emphasis added).

IV. MCI'S PROPOSED PIC PROTECTION RULES SHOULD BE REJECTED

A. Rules For PIC Protection Are Not Needed

For consideration in its proposed rulemaking proceeding, MCI proposes rules that pertain solely to PIC protection.²⁶ Rules on PIC protection are unnecessary, and MCI's proposals should be rejected.

PIC protection programs are, and should continue to be, permissible. As discussed in Part III above, the Commission has encouraged LECs to take additional steps to curb slamming and favorably cited Pacific Bell's PIC-protection program. So long as slamming remains a problem, PIC protection helps ensure fair competition and consumer choice by providing consumers an option to help avoid future problems. If slamming stopped being a problem, PIC protection would no longer be needed, and competition and consumer choice could be ensured even more efficiently. In other words, the root-cause of the relevant consumer problems is slamming, and PIC protection is an after-the-fact "Band-Aid" to stop the bleeding. Nonetheless, MCI's proposed rules ignore slamming. As discussed in Part II above, the Commission should not institute the narrow rulemaking on PIC protection that MCI proposes but should institute a broad § 258 rulemaking on slamming.

²⁶ MCI Petition at 8-9.

B. The Commission Should Allow Carriers To Employ Any Reasonable Method Of PIC Protection

If, however, the Commission proposes rules on PIC protection as part of a broad rulemaking on slamming, the Commission should allow carriers to employ any reasonable method of PIC protection. For instance, SWBT requires written verification while Pacific Bell and Nevada Bell use a verbal process. Since both methods are reasonable, either approach should be allowed. LECs should not be required to apply more than one method because to do so would increase the administrative burden, thereby reducing efficiency and responsiveness to customers and creating customer confusion, as well as resulting in increased costs.

C. If PIC Protection Is Addressed In A § 258 Rulemaking, The Rules Must Be Applied To All Carriers, Including Those IXCs That Are Attempting To Abuse The PIC Protection Process To Protect Market Share

Any PIC-protection rules must be applied to all carriers. Pacific Bell has experienced what appear to be competitive abuses of the PIC protection process by some IXCs who have attempted to use it to increase or secure their market shares. On numerous occasions, Pacific Bell's service representatives have become suspicious when "customers" have called to implement or remove PIC protection but do not know their social security numbers or other identifying information, or speak fluent English when the account has a foreign language indicator. In these circumstances, a callback is arranged, and the real customer is often completely unaware that someone called regarding PIC protection.

In addition, some IXCs, including MCI, have submitted PIC-protection request letters in bulk to SWBT and Pacific Bell that were supposedly solicited from their customers.²⁷ If allowed, this practice of IXC submission of PIC protection requests in order to protect market share would destroy PIC protection by returning LECs to a situation in which they would have to trust that what the IXC provided really expressed the intent of the customer — the very situation that allowed slamming in the first place.

D. MCl's Proposed Rules Contain Serious Flaws That Would Harm Consumers

If, contrary to our advice, the Commission considers MCI's proposed rules, the Commission should recognize the serious flaws in MCI's proposals. For instance, MCI proposes that carriers be required to furnish "to any requesting carrier, the name and telephone number of all consumers who have in effect a PIC freeze and/or local, intraLATA or interLATA carrier restrictions on their accounts." We oppose this proposal. We believe that MCI would use this information for marketing purposes and that PIC protection should be kept separate from marketing. Congress, the FCC, and

²⁷ SWBT representatives called some of these customers in order to verify a sample of these bulk PIC-protection requests; often the customers said that they had no knowledge of the request. Moreover, the requests are often so general and vague as to go far beyond PIC protection. Forms submitted by MCI for customer accounts state, "Please ensure that no changes are made to our account, unless you receive express authorization from an authorized officer or decision maker of the company."

the States have been very sensitive to the need to protect the privacy of customer information. For instance, § 222(a) of the Act states:

"Every telecommunications carrier has a duty to protect the confidentiality of proprietary information of, and relating to, other telecommunication carriers, equipment manufacturers, and customers...."

Other examples of flaws in MCI's proposed rules are contained in the following proposal that carriers must:

"(4) Co-operate with other carriers and affected consumers in any reasonable manner to remove an existing PIC freeze or carrier restrictions so that a new carrier can replace a current carrier as promptly as possible. This co-operation must include offering the functionality to conduct a three-way telephone conference between the consumer, the current carrier, and the new carrier; the receipt and efficient processing of written or oral consumer requests to unfreeze the PIC or to remove the carrier restriction; or any other reasonable method designed to implement promptly the consumer's right to choose from among competing carriers. Third party verification of a consumer's request to switch carriers in compliance with Section 64.1100 of the Commission's rules is sufficient to remove a PIC freeze or carrier restriction."

We oppose this proposal. First, although we agree that carriers must co-operate with each other and with customers, carriers must have set processes for the placement and removal of PIC protection. As discussed above, administrative efficiency, carrier responsiveness to customers, and the avoidance of customer confusion require that LECs be allowed to employ a reasonable means of PIC protection, rather than being required to employ multiple means.

Second, MCI's proposed rule regarding three-way calls demonstrates the problem of over-regulation of how to employ PIC protection. As part of its verbal process for PIC protection, Pacific Bell currently accepts three-way calls into its business offices with the consumer and the new carrier. As proposed by MCI, the LEC would be required to include the current carrier, the new carrier, and the customer, together with the LEC itself. This requirement could constitute a four-way call, which would be technically difficult, if not impossible, to conduct and would not benefit the consumer or competition but would create confusion and inconvenience. Another problem with trying to codify multiple-party call requirements is the individualized nature of when such calls should begin and end in relation to other transactions that the customer may want to carry out with the LEC on the same call. In addition, if a LEC has a reasonable PIC-protection process that requires written authorization, such as SWBT's, multiple-party calls are unnecessary. This is an area that should be left to carriers to work out among themselves, rather than to regulation.

Third, MCl's proposal concerning third-party verification fails to recognize that PIC protection is a consumer safeguard which was created in response to some IXCs' abuse and victimization of customers via slamming. Third-party verification is one of the means that the Commission allows for IXC submissions of PIC changes.²⁹ By allowing PIC protection to be removed simply by employing one of the Commission's options for PIC changes, PIC protection would be made meaningless. The "third-party" could itself be a slammer and could provide a fraudulent third-party verification. This

²⁹ 47 C.F.R. § 64.1100.

proposed rule would allow IXCs to take control of the PIC protection process away from consumers and would create the potential for the same abuse and confusion as has been created by unauthorized PIC changes.

V. CONCLUSION

For all of the above reasons, the Commission should deny MCI's Petition. MCI's request for a rulemaking is too narrow and ignores the fundamental slamming issues that must be addressed in a broad § 258 rulemaking proceeding. Moreover, MCI's Petition severely distorts the one issue that it does address. Contrary to MCI's general assertions against LEC PIC-protection practices, SWBT, Pacific Bell, and Nevada Bell apply PIC protection solely as a consumer safeguard. MCI's recommended rules would

place PIC protection under the control of IXCs and destroy its value as a consumer protection.

Respectfully submitted,

SOUTHWESTERN BELL TELEPHONE COMPANY

By Marjove Morris Leisman JEV
Robert M. Lynch
Durward D. Dupre

Mary W. Marks

Marjorie Morris Weisman

One Bell Center St. Louis, MO 63101 (314) 235-2507

PACIFIC BELL AND NEVADA BELL

Menin D. Ard

Randall E. Cape Jeffrey B. Thomas

> 140 New Montgomery Street, Room 1529 San Francisco, California 94105 (415) 542-7661

Their Attorneys

Date: June 4, 1997

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